

# **REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND COUNCIL ON UMHLATHUZE MUNICIPALITY**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Introduction**

1. I have audited the financial statements of the Umhlathuze Municipality set out on pages ... to ..., which comprise, the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2012 (Act No. 5 of 2012) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor-general's responsibility**

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Opinion**

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Umhlathuze Municipality as at 30 June 2013, and its financial performance and cash flows for the year then ended in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

### **Emphasis of matters**

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Restatement of corresponding figures**

8. As disclosed in note 33 to the financial statements, the corresponding figures for 30 June 2012 have been restated as a result of an error discovered during 30 June 2013 in the financial statements of the Umhlathuze Municipality at, and for the year ended, 30 June 2012.

### **Material losses**

9. As disclosed in note 26 to the financial statements, the municipality has incurred material losses relating to water amounting to R20,37 million (29,42 million kilolitres) (2012: R16,05 million (27,11 million kilolitres). The losses were incurred due to bulk metering of the traditional authorities and aging reticulation without sufficient refurbishment and maintenance.
10. As disclosed in note 26 to the financial statements, the municipality has incurred material losses relating to electricity amounting to R85,48 million (144,88 million kilowatts) (2012: R123,54 million (257,37 million kilowatts). The losses were incurred due theft, incorrect metering and aging of the network without sufficient refurbishment and maintenance.

### **Unauthorised expenditure**

11. As disclosed in note 42.2.2 to the financial statements, the municipality has overspent on the depreciation and amortisation by R239, 10 million due depreciation charge not being budgeted for against rates and general as required by MFMA section 4(3).

### **Material under spending of municipal infrastructure grant**

12. As disclosed in note 18.6 and note 42.2.4 to the financial statements, the municipality has materially under-spent the budget on its municipal infrastructure grant to the amount of R64,76 million.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

13. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

### **Predetermined objectives**

14. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages ... to ... of the annual report.
15. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned development objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information*.

16. The reliability of the information in respect of the selected programmes is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
17. There were no material findings on the annual performance report concerning the usefulness and reliability of the information.

#### **Additional matter**

18. Although no material findings concerning the usefulness and reliability of the performance information was identified in the annual performance report, I draw attention to the following matter:

#### **Achievement of planned targets**

19. Of the total number of 53 targets planned for the year, 16 of these targets were not achieved during the year under review. This represents 30% of total planned targets that were not achieved during the year under review. This was due to the under spending in municipal infrastructure grant disclosed in note 18.6 to the financial statements.

#### **Compliance with laws and regulations**

20. I did not identify any instances of material non-compliance with specific matters in key applicable laws and regulations as set out in the general notice issued in terms of the PAA.

#### **Internal control**

21. I did not identify any deficiencies in internal control which I considered sufficiently significant for inclusion in this report.

#### **OTHER REPORT**

##### **Investigation in progress**

22. One investigation into allegations of misconduct in the Infrastructure Department relating to the non-spending of Municipal Infrastructure Grant was in progress at the municipality.

*Auditor-General*

Pietermaritzburg

30 November 2013



AUDITOR-GENERAL  
SOUTH AFRICA

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